

DIRECT TESTIMONY AND EXHIBITS OF
CHRISTINA L. SEALE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-281-S
IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR
ADJUSTMENT (INCREASE) OF RATES AND CHARGES, TERMS AND
CONDITIONS, FOR SEWER SERVICE PROVIDED TO CUSTOMERS IN
ITS RICHLAND AND KERSHAW COUNTY SERVICE AREAS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Christina L. Seale. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Audit Coordinator of the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree with a major in Accounting and a minor in Computer Systems and Applications from Columbia College. Prior to my employment with ORS, I performed agreed-upon procedures engagements and statewide single audits of various South Carolina state agencies for the South Carolina Office of the State Auditor. In 2005, I joined ORS and since then have participated in cases involving the regulation of telecommunications, electric, natural gas, radioactive waste disposal, water and wastewater utilities.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have previously testified before the Commission.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth ORS’s findings and recommendations resulting from ORS’s examination of the application of Palmetto Utilities, Inc. (“PUI” or “Company”) in Docket No. 2019-281-S (“application”). The application was filed on November 27, 2019.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF PUI.

A. ORS’s examination of the Company’s application consisted of three major steps. In step one, ORS verified that the operating experience, reported by the Company in its application, was supported by PUI’s accounting books and records for the twelve months ending August 31, 2019 (“test year”). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking

purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the application:

- Exhibit CLS-1: Operating Experience, Rate Base and Rate of Return
- Exhibit CLS-2: Explanation of Accounting and Pro Forma Adjustments
- Exhibit CLS-3: Computation of Depreciation and Amortization Expense
- Exhibit CLS-4: Computation of Income Taxes
- Exhibit CLS-5: Cash Working Capital Allowance
- Exhibit CLS-6: Return on Equity
- Exhibit CLS-7: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for wastewater utility rate cases and previous Commission Orders. These exhibits show various aspects of PUI's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF EXHIBIT CLS-1 AND ELABORATE ON THE CALCULATIONS.

A. Exhibit CLS-1 details PUI's operating experience, rate base and rate of return for the test year. The exhibit's format is designed to reflect the Company's application per books, ORS's proposed accounting and pro forma adjustments necessary to normalize the

1 results of the Company's test year operations and reflect ORS's adjustments necessary to
2 achieve the return on equity recommended by ORS witness Parcell.

3 Column (1) details the application per book amounts reported by PUI for the test
4 year. ORS verified total operating revenues of \$21,313,222, total operating expenses of
5 \$9,963,390, other income and deductions of \$135,479, and net income for return of
6 \$11,485,311 to the Company's books and records. The per book rate base of \$96,850,160
7 produced a return on rate base of 11.86%. As shown on Exhibit CLS-6, the resulting return
8 on equity was 16.74%.

9 Column (2) details ORS's proposed accounting and pro forma adjustments
10 designed to normalize the application per books. An explanation of each adjustment is
11 contained in Exhibit CLS-2.

12 Column (3) details ORS's calculation of a normalized test year for PUI by adding
13 columns (1) and (2). After the accounting and pro forma adjustments, net income for return
14 of \$5,407,051 was computed using total operating revenues of \$22,568,873, less total
15 operating expenses of \$17,301,271, plus other income and deductions of \$7,404, plus
16 customer growth of \$72,956, and less amortization of EDIT of (\$59,089). Total rate base
17 of \$77,737,805 produced a return on rate base of 6.96%. As shown on Exhibit CLS-6, the
18 resulting return on equity was 7.83%.

19 Column (4) details ORS's adjustments to revenues, expenses, taxes and customer
20 growth for the return on equity recommendation of ORS witness Parcell. An explanation
21 of each adjustment is contained in Exhibit CLS-2.

22 Column (5) details the effect of ORS's adjustments by adding columns (3) and (4).
23 Net income for return of \$6,142,956 was computed using total operating revenues of

\$23,558,873, less total operating expenses of \$17,565,419, plus other income and deductions of \$7,404, plus customer growth of \$83,009, and less amortization of EDIT of (\$59,089). Total rate base of \$77,737,805 produced a return on rate base of 7.90%. As shown on Exhibit CLS-6, the resulting return on equity was 9.55%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT CLS-2.

A. For comparative purposes, ORS's and PUI's proposed adjustments are both presented in Exhibit CLS-2.

Adjustment 1A – Wastewater Sales Revenues

This adjustment is addressed in the direct testimony of ORS witness Hunnell.

Adjustment 1B – Other Wastewater Revenues

This adjustment is addressed in the direct testimony of ORS witness Hunnell.

Adjustment 2 – Operating Expenses

ORS's total operating expense adjustment is \$2,704,918. This adjustment is comprised of the following operating expense adjustments:

Adjustment 2A – Purchased Power

This adjustment is addressed in the direct testimony of ORS witness Kleckley.

Adjustment 2B – Contract Services-Management Fees

This adjustment is addressed in the direct testimony of ORS witness Kleckley.

Adjustment 2C – Bad Debt Expense

The Company proposes to adjust bad debt expense using a bad debt percentage of 2.5% of total revenues. The ORS Water Operations Department proposes to use a bad debt percentage of 1.78% as shown in ORS witness Hunnell's Exhibit DPH-7. ORS applied the 1.78% bad debt percentage to total revenues after accounting and pro forma adjustments,

1 less per book bad debt expense of \$291,304, which results in ORS's proposed adjustment
2 of \$110,422.

3 Adjustment 2D – Miscellaneous Expenses

4 The Company proposes to allocate a portion of corporate overhead expenses from
5 Ni Pacolet Milliken Utilities, LLC ("Ni") to PUI totaling \$2,800,402. ORS reviewed the
6 Company's adjustment and proposes to remove \$348,944, which results in ORS's
7 proposed adjustment of \$2,451,458.

8 The difference between the Company's and ORS's adjustment is attributed to the
9 following:

10 (1) Rent (\$3,000)– the Company expected an increase of an additional \$3,000 to
11 rent expense for the 1713 Woodcreek Farm Road Building. As of February
12 25, 2020, the increase proposed by the Company had not yet been incurred
13 and is not known and measurable. Therefore, ORS proposes no adjustment to
14 the overhead rent expense.

15 (2) Host Software (\$1,532) – the Company annualized the new host software
16 expense by adding nine monthly payments of \$1,532. ORS proposes to
17 annualize the host software expense by adding eight monthly payments of
18 \$1,532, because the Company already recorded four monthly payments on its
19 books. The Company inadvertently included an extra payment of \$1,532,
20 according to PUI's response to ORS Audit Request #19, which is the difference
21 between ORS's and the Company's adjustment.

22 (3) Ni's Salary Adjustments (\$64,015) - the Company adjusted test year salaries
23 for employees that were employed for less than twelve months and included an

1 estimated 3% cost of living increase. ORS annualized salaries as of January 31,
2 2020 to include the Company's actual incurred cost of living increase. The
3 Company also included salary of \$40,498 for a vacant position. This position
4 has been vacant since July 12, 2019, and ORS confirmed with the Company
5 that it had not been filled as of February 27, 2020. ORS did not include the
6 salary associated with the vacant position in the calculation of Ni salaries, since
7 the position had not been filled and the salary amount is not known and
8 measurable. ORS also updated the total amount of salaries capitalized and
9 reclassified from expenses based on each of the employee's duties as provided by
10 the Company.

11 (4) Nonallowables (\$17,535) – ORS proposes to remove \$17,535 of nonallowable
12 expenses not excluded by the Company as part of its overhead adjustment.
13 These consist of:

- 14 a. \$12,035 in lobbying expenses,
- 15 b. \$525 in expenses incurred outside the test year,
- 16 c. \$70 in late payment fees,
- 17 d. \$3,332 in nonallowable luncheons and meals,
- 18 e. \$279 in expenses with insufficient documentation, and
- 19 f. \$1,294 in gifts and contributions.

20 (5) Bonuses and Associated Taxes & Benefits (\$334,687) – ORS proposes to
21 remove bonuses of \$311,500 and associated taxes and benefits of \$23,187.
22 ORS requested through ORS's First Request for Production of Books Records
23 and Other Information #1.37 for the Company to "state [its] practices and

1 procedures for employee and officer bonuses.” The Company’s response
2 stated, “the bonuses are based on goals and objectives/accomplishments
3 achieved by the manager. The specifics of these are communicated to each
4 manager throughout the year and change from year to year.” ORS requested
5 the Company through Audit Request #8 to “provide a copy of the Company’s
6 incentive compensation program. If the Company does not have a written
7 company incentive compensation program explain why not and provide the
8 criteria an employee must meet in order to qualify for incentive compensation.”
9 The Company’s response referred ORS back to PUI’s response in ORS’s First
10 Request for Production of Books Records and Other Information #1.37. ORS
11 followed up further by requesting the Company to provide a copy of its written
12 Annual Performance Bonus policy in ORS Audit Request #12. PUI’s response
13 stated, “The Company does not have a formal written policy as this is a
14 relatively small company.” ORS also requested the Company through ORS
15 Audit Request #12 to “provide copies of the bonus supporting documentation
16 written for each employee and manager stating the specific bonus goals,
17 objectives and accomplishments achieved.” The Company did not provide
18 documentation to demonstrate that each employee met specific bonus goals,
19 objectives and accomplishments. Instead the Company provided a written
20 response summarizing its goals and accomplishments for certain employees and
21 noted that the rest of the bonuses were Christmas bonuses. Subsequently, on
22 April 15, 2020, the Company provided ORS an additional response to ORS
23 Audit Request #12. The Company provided a document listing a financial goal

1 for four of the five employees listed on the document. The goal for each of the
2 employees was related to earnings before interest, taxes, depreciation and
3 amortization (“EBITDA”), for the year 2018, and was not indicated as met. In
4 summary, the Company does not have a formal written bonus policy established
5 and does not maintain written documentation in each employee’s personnel file.

6 In the prior PUI rate case (Docket No. 2017-228-S), as well as its sister
7 company’s most recent rate case, Palmetto Wastewater Reclamation, LLC
8 (Docket No. 2018-82-S), the companies voluntarily removed all bonuses and
9 designated the bonuses as nonallowable. Therefore, the bonuses were not
10 included by the companies in the allowable overhead adjustment used to
11 calculate net income for return for either of the companies in these prior rate
12 cases. The Company’s response to ORS’s First Request for Production of
13 Books Records and Other Information #1.37 states, “The bonus policy benefits
14 customers as it produces strong performance without committing to a higher
15 salary which would be paid each and every year in the absence of this process.
16 The annual bonus amount can vary within the allowed range base on that year’s
17 performance, whereas reductions in annual salary are very uncommon.” Based
18 on the Company’s response to ORS Audit Request #16, the Company’s bonus
19 payouts have steadily increased and have more than doubled since 2015. In
20 addition, the Company continued to increase its employees’ salaries through the
21 years regardless of the increase in bonus payouts. While the Company justified
22 its bonus policy by stating the payment of bonuses benefit PUI’s customers
23 because the Company is not committing to higher employee salaries, the

1 Company records indicate it is paying higher salaries to employees and
2 increasing bonus payouts. Based on the Company's response, the employee
3 bonuses cannot be considered known and measurable, since the bonuses vary
4 year to year, the limited performance benchmarks stated by the Company are
5 linked to Company earnings and EBITDA, and the customer receives no
6 identifiable benefits related to PUI's payment of bonuses.

7 Therefore, ORS proposes to remove total bonuses and associated taxes
8 and benefits of \$334,687.

9 (6) Pacolet Milliken, LLC Salaries and Benefits (\$55,215) – The Company used
10 test year salaries in the calculation of its overhead adjustment. In addition, the
11 Company removed a portion of an employee's salary and benefits, recovered in
12 the Lockhart Power Company rate case, Docket No. 2013-392-E, from the
13 Pacolet Milliken, LLC salaries and benefits the Company proposed to allocate
14 as part of its overhead adjustment. ORS's adjustment annualizes salaries as of
15 December 31, 2019 and correctly removes the portion of the employee's salary
16 and benefits previously recovered in Docket No. 2013-392-E.

17 The total amount ORS proposes to remove from Ni's corporate overhead cost pool
18 before allocation to PUI is \$475,984. The allocation percentage assigned to PUI based on
19 all Ni companies' Equivalent Residential Customers ("ERCs") is approximately 73.31%.
20 The total difference between ORS and PUI's overhead adjustments equals \$348,944
21 (\$475,984 x 73.31%), and results in ORS's total proposed corporate overhead adjustment
22 of \$2,451,458.

Adjustment 2E – Expenses Incurred Outside Test Year

ORS proposes to remove expenses incurred outside the test year of \$1,552.

Adjustment 3 – Depreciation and Amortization

ORS's total depreciation and amortization expense adjustment is (\$762,326). This adjustment is comprised of the following adjustments:

Adjustment 3A – Depreciation Expense

This adjustment is addressed in the direct testimony of ORS witness Kleckley.

Adjustment 3B – Amortization Expense

This adjustment is addressed in the direct testimony of ORS witness Kleckley.

Adjustment 4 – Rate Case Expenses

The Company proposes to include estimated rate case expenses of \$317,950 amortized over three years for a total adjustment of \$105,983. ORS proposes to include allowable, known and measurable current rate case expenses as of February 25, 2020 of \$224,456, plus unamortized prior rate case expenses (Docket No. 2017-228-S) of \$50,722, for total rate case expenses of \$275,178. Total rate case expenses of \$275,178, amortized over three years, less the per book rate case expense amortization of \$86,952, yields ORS's proposed adjustment of \$4,774.

Adjustment 5 – Taxes Other Than Income

ORS's total taxes other than income adjustment is \$10,071. This adjustment is comprised of the following adjustments:

Adjustment 5A – Utility Regulatory Assessment Fees

1 ORS proposes to adjust utility regulatory assessment fees after accounting and pro
2 forma adjustments by applying the gross receipts factor of 0.52728% to total pro forma
3 revenue, less the per book amount of \$93,338.

4 Adjustment 5B – Property Taxes

5 This adjustment is addressed in the direct testimony of ORS witness Kleckley.

6 Adjustment 6 – Income Taxes

7 ORS's total income tax adjustment is \$5,380,444. This adjustment is comprised of
8 the following adjustments:

9 Adjustment 6A – Federal Income Taxes

10 The Company proposes to adjust federal income taxes reflecting the 21% federal
11 income tax rate for its accounting and pro forma adjustments. ORS proposes to adjust
12 federal income taxes using the 21% federal income tax rate applied to taxable income after
13 ORS's accounting and pro forma adjustments. Details of ORS's computation of income
14 taxes are shown in Exhibit CLS-4.

15 Adjustment 6B – State Income Taxes

16 The Company proposes to adjust state income taxes reflecting a 5% state income
17 tax rate for its accounting and pro forma adjustments. ORS proposes to adjust state income
18 taxes using the South Carolina corporate income tax rate of 5% applied to taxable income
19 after ORS's accounting and pro forma adjustments. Details of ORS's computation of
20 income taxes are shown in Exhibit CLS-4.

21 Adjustment 6C – Miscellaneous Income

22 The Company proposes to remove a one-time tax entry to reflect a change in the
23 federal income tax rate. ORS accepts the Company's adjustment of \$6,047,489.

Adjustment 6D – Deferred Income Taxes

The Company proposes to remove deferred income taxes from test year expenses. ORS accepts the Company's adjustment of (\$2,033,705).

Adjustment 7 – Other Income and Deductions

ORS's total other income and deductions adjustment is (\$128,075). This adjustment is comprised of the following adjustments:

Adjustment 7A – Income from Utility Plant Leased to Others

The Company proposes to eliminate nonrecurring income of \$4,000 in the test year. ORS accepts the Company's adjustment of (\$4,000).

Adjustment 7B – Gain on Disposition of Property

The Company proposes to reverse the gain on disposition of property in the test year of \$25,104. ORS accepts the Company's adjustment of (\$25,104).

Adjustment 7C – Allowance for Funds Used During Construction ("AFUDC") Equity and Debt

The Company proposes to eliminate AFUDC of \$110,971 from the test year. ORS accepts the Company's adjustment of (\$110,971).

Adjustment 7D – Regulatory Fines and Penalties

The Company proposes to eliminate the balance of (\$12,000) for the miscellaneous non-utility expense account. ORS accepts the Company's adjustment of \$12,000.

Adjustment 8 - Customer Growth

ORS proposes to adjust customer growth for total net utility operating income after the ORS accounting and pro forma adjustments. The ORS Water Operations Department computed a growth factor of 1.385% as shown in ORS witness Hunnell's Exhibit DPH-5.

This factor was applied to the total net utility operating income after ORS's accounting and pro forma adjustments for calculation of this adjustment.

Adjustment 9 – Amortization of Excess Deferred Income Taxes

This adjustment is addressed in the direct testimony of ORS witness Sullivan.

Adjustment 10 – Plant in Service

This adjustment is addressed in the testimony of ORS witness Kleckley.

Adjustment 11 – Accumulated Depreciation

This adjustment is addressed in the testimony of ORS witness Kleckley.

Adjustment 12 – Contributions in Aid of Construction (“CIAC”)

This adjustment is addressed in the testimony of ORS witness Kleckley.

Adjustment 13 – Accumulated Amortization of CIAC

This adjustment is addressed in the testimony of ORS witness Kleckley.

Adjustment 14 – Accumulated Deferred Income Taxes (“ADIT”)

This adjustment is addressed in the testimony of ORS witness Sullivan.

Adjustment 15 – Excess Deferred Income Taxes

This adjustment is addressed in the testimony of ORS witness Sullivan.

Adjustment 16 – Cash Working Capital

The Company proposes to adjust cash working capital using a 45-day allowance or 1/8 of total operating expenses and taxes other than income. ORS accepts the Company using a 45-day allowance to calculate cash working capital. However, ORS proposes to adjust cash working capital by applying the 45-day allowance or 1/8 to total operating expenses after accounting and pro forma adjustments. ORS does not propose to include taxes other than income in the calculation of its adjustment for cash working capital. The

Company's calculation of cash working capital is inconsistent with how ORS has treated, and the Commission has accepted, the cash working capital allowance in numerous prior Commission orders including most recent Commission Order Nos. 2018-369 for Synergy Utilities, L.P., 2018-155 for Palmetto Utilities, Inc., 2019-288 for Kiawah Island Utility, Inc., 2019-314 for Palmetto Wastewater Reclamation, LLC, and 2020-94 for CUC, Inc. Details of this adjustment are included in Exhibit CLS-5.

Adjustment 17 – Interest Expense

ORS's total interest expense adjustment is (\$2,108,880). This adjustment is comprised of the following adjustments:

Adjustment 17A – Interest Expense

The Company proposes to synchronize interest expense with rate base. ORS accepts this methodology. ORS calculated the adjustment to interest expense using an allowable rate base of \$77,737,805, a 45% debt and 55% equity capital structure, and a 5.89% weighted average cost of debt as proposed by ORS witness Parcell. ORS applied the weighted average cost of debt to the portion of the Company's rate base funded by debt to generate synchronized interest expense of \$2,060,441. This amount less the Company's per book interest expense of \$4,013,153 yields an adjustment of (\$1,952,712).

Adjustment 17B– Amortization of Debt Expense

The Company proposes to remove the amortization of debt expense of \$156,168. ORS accepts the Company's adjustment of (\$156,168).

Adjustment 18A – Wastewater Sales Revenue

This adjustment is addressed in the testimony of ORS witness Hunnell.

Adjustment 18B – Other Wastewater Revenues

This adjustment is addressed in the testimony of ORS witness Hunnell.

Adjustment 19 – Bad Debt Expense

ORS proposes to adjust bad debt expense for ORS's adjustments to revenues. The bad debt percentage of 1.78% used to calculate bad debt expense was provided by the ORS Water Operations Department and is shown in ORS witness Hunnell's Exhibit DPH-7.

Adjustment 20 – Utility Regulatory Assessment Fees

ORS proposes an adjustment to gross receipts taxes after ORS's adjustments to revenues using a factor of 0.52728%.

Adjustment 21 – Income Taxes

ORS's total income tax adjustment is \$241,306. This adjustment is comprised of the following adjustments:

Adjustment 21A – Federal Income Taxes

ORS proposes to adjust federal income taxes after ORS's adjustments to revenues, bad debt expense and gross receipts taxes using the federal income tax rate of 21%. Details of ORS's computation of income taxes are shown in Exhibit CLS-4.

Adjustment 21B – State Income Taxes

ORS proposes to adjust state income taxes after ORS's adjustments to revenues, bad debt expense and gross receipts taxes using the state income tax rate of 5%. Details of ORS's computation of income taxes are shown in Exhibit CLS-4.

Adjustment 22 – Customer Growth

ORS proposes to adjust customer growth for total net utility operating income after ORS's adjustments. The ORS Water Operations Department computed a growth factor of

1 1.385% as shown in ORS witness Hunnell's Exhibit DPH-5. This factor was applied to
2 the total net utility operating income for ORS's adjustment.

3 **Q. PLEASE DESCRIBE THE REMAINING EXHIBITS ATTACHED TO YOUR**
4 **TESTIMONY.**

5 **A.** Exhibit CLS-3 details the computation of ORS's depreciation and amortization
6 expense adjustments for plant in service and CIAC. Exhibit CLS-4 details the computation
7 of income taxes. Exhibit CLS-5 details the calculation of the cash working capital
8 allowance. Exhibit CLS-6 details the calculation of return on equity. Exhibit CLS-7 details
9 the Company's operating experience, rate base and rate of return for the test year. The
10 exhibit's format is designed to reflect the application per books and ORS's proposed
11 accounting and pro forma adjustments necessary to normalize the results of the Company's
12 test year operations and reflect ORS's recalculation of the Company's proposed rate increase.

13 **Q. DID THE COMPANY ADDRESS THE TREATMENT OF EXCESS TAX**
14 **COLLECTIONS IN THE APPLICATION AS A RESULT OF THE 2017 TAX CUTS**
15 **AND JOBS ACT?**

16 **A.** No. The Company did not address the treatment of excess tax collections attributed
17 to the change in the federal income tax rate through the 2017 Tax Cuts and Jobs Act
18 ("TCJA") in its application. ORS's recommendations related to the TCJA are addressed
19 in the testimony of ORS witness Sullivan.

20 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
21 **BECOMES AVAILABLE?**

1 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
2 testimony should new information not previously provided by the Company, or other
3 sources, becomes available.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 **A.** Yes, it does.

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended August 31, 2019

Exhibit CLS-1

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>ORS Adjustments</u> \$	(5) <u>After ORS Adjustments</u> \$
<u>Utility Operating Revenues:</u>					
Wastewater Sales Revenues	20,156,156	1,317,532 (1A)	21,473,688	986,155 (18A)	22,459,843
Other Wastewater Revenues	1,157,066	(61,881) (1B)	1,095,185	3,845 (18B)	1,099,030
<u>Total Utility Operating Revenues</u>	<u>21,313,222</u>	<u>1,255,651</u>	<u>22,568,873</u>	<u>990,000</u>	<u>23,558,873</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	5,632,277	2,704,918 (2)	8,337,195	17,622 (19)	8,354,817
Depreciation and Amortization	4,354,186	(762,326) (3)	3,591,860	0	3,591,860
Rate Case Expenses	686,665	4,774 (4)	691,439	0	691,439
Taxes Other Than Income Taxes	3,602,038	10,071 (5)	3,612,109	5,220 (20)	3,617,329
Income Taxes	(4,311,776)	5,380,444 (6)	1,068,668	241,306 (21)	1,309,974
<u>Total Utility Operating Expenses</u>	<u>9,963,390</u>	<u>7,337,881</u>	<u>17,301,271</u>	<u>264,148</u>	<u>17,565,419</u>
<u>Total Net Utility Operating Income (Loss)</u>	<u>11,349,832</u>	<u>(6,082,230)</u>	<u>5,267,602</u>	<u>725,852</u>	<u>5,993,454</u>
Other Income and Deductions	135,479	(128,075) (7)	7,404	0	7,404
Add: Customer Growth	0	72,956 (8)	72,956	10,053 (22)	83,009
Less: Amortization of EDIT	0	(59,089) (9)	(59,089)	0	(59,089)
<u>Net Income for Return</u>	<u>11,485,311</u>	<u>(6,078,260)</u>	<u>5,407,051</u>	<u>735,905</u>	<u>6,142,956</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	185,672,411	(602,048) (10)	185,070,363	0	185,070,363
Accumulated Depreciation	(56,244,271)	(511,040) (11)	(56,755,311)	0	(56,755,311)
Contributions in Aid of Construction (CIAC)	(58,602,697)	(26,970,472) (12)	(85,573,169)	0	(85,573,169)
Accumulated Amortization of CIAC	24,312,959	15,038,579 (13)	39,351,538	0	39,351,538
Net Plant	95,138,402	(13,044,981)	82,093,421	0	82,093,421
Accumulated Deferred Income Taxes	(81,654)	(4,894,748) (14)	(4,976,402)	0	(4,976,402)
Excess Deferred Income Taxes (EDIT)	0	(1,146,916) (15)	(1,146,916)	0	(1,146,916)
Materials and Supplies	477,552	0	477,552	0	477,552
Prepayments	161,571	0	161,571	0	161,571
Cash Working Capital	1,154,289	(25,710) (16)	1,128,579	0	1,128,579
<u>Total Rate Base</u>	<u>96,850,160</u>	<u>(19,112,355)</u>	<u>77,737,805</u>	<u>0</u>	<u>77,737,805</u>
<u>Return on Rate Base</u>	<u>11.86%</u>		<u>6.96%</u>		<u>7.90%</u>
<u>Operating Margin</u>	<u>34.33%</u>		<u>14.83%</u>		<u>17.33%</u>
<u>Interest Expense</u>	<u>4,169,321</u>	<u>(2,108,880) (17)</u>	<u>2,060,441</u>	<u>0</u>	<u>2,060,441</u>

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2019

Exhibit CLS-2
Page 1 of 4

ORS	PUI		Sewer Operations	
Adj. #	Adj. #	Description	ORS	PUI
<u>Accounting and Pro forma Adjustments</u>				
(1A)	(1)	<u>Wastewater Sales Revenues</u>		
		To adjust wastewater sales revenues as calculated by the ORS Water Operations Department.	\$ <u>1,317,532</u>	\$ <u>1,133,541</u>
(1B)	-	<u>Other Wastewater Revenues</u>		
		To adjust other wastewater revenues as calculated by the ORS Water Operations Department.	\$ <u>(61,881)</u>	\$ <u>0</u>
(2)		<u>Operating Expenses</u>		
(2A)	(2)	To remove one time electric credits.	\$ 99,770	\$ 99,770
(2B)	(3)	To reflect increase in third party operator cost.	44,820	44,820
(2C)	(4)	To reflect bad debts at 1.78% of revenue.	110,422	269,866
(2D)	(5)	To include allocated corporate overhead costs in the cost of service.	2,451,458	2,800,402
(2E)	-	To remove expenses outside the test year.	(1,552)	0
(2)		<u>Total Operating Expenses</u>	\$ <u>2,704,918</u>	\$ <u>3,214,858</u>
(3)		<u>Depreciation and Amortization</u>		
(3A)	(6)	To reflect annualized depreciation expense on adjusted plant in service.	\$ (121,302)	\$ 30,913
(3B)	(6)	To reflect annualized amortization expense on adjusted contributions in aid of construction.	(641,024)	(49,517)
(3)		<u>Total Depreciation and Amortization</u>	\$ <u>(762,326)</u>	\$ <u>(18,604)</u>
		<u>Rate Case Expenses</u>		
(4)	(7)	To reflect rate case expense amortization over a 3-year period.	\$ <u>4,774</u>	\$ <u>105,983</u>
(5)		<u>Taxes Other Than Income</u>		
(5A)	-	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.0052728.	\$ 25,664	\$ 0
(5B)	(8)	To adjust property taxes related to pro-forma plant balances.	(15,593)	592,054
(5)		<u>Total Taxes Other Than Income</u>	\$ <u>10,071</u>	\$ <u>592,054</u>

Palmetto Utilities, Inc.
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For the Test Year Ended August 31, 2019

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ORS Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(6)		<u>Income Taxes</u>		
(6A)	(9)	To adjust federal income taxes on proforma income at 21%.	\$ 1,122,805	\$ 658,130
(6B)	(10)	To adjust state income taxes on proforma income at 5%.	243,855	127,394
(6C)	(11)	To eliminate one time tax entry to reflect change in income tax rate.	6,047,489	6,047,489
(6D)	(12)	To remove deferred income taxes from the test year expenses.	(2,033,705)	(2,033,705)
(6)		<u>Total Income Taxes</u>	<u>\$ 5,380,444</u>	<u>\$ 4,799,308</u>
(7)		<u>Other Income and Deductions</u>		
(7A)	(13)	To eliminate non-recurring income from utility plant leased to others.	\$ (4,000)	\$ (4,000)
(7B)	(13)	To eliminate non-recurring gains on disposition of property.	(25,104)	(25,104)
(7C)	(14)	To eliminate AFUDC from the test year.	(110,971)	(110,971)
(7D)	(15)	To eliminate a one-time regulatory fine.	12,000	12,000
(7)		<u>Total Other Income and Deductions</u>	<u>\$ (128,075)</u>	<u>\$ (128,075)</u>
(8)	-	<u>Customer Growth</u> To adjust for customer growth based on the total net utility operating income after accounting and proforma adjustments. The customer growth factor is 1.385%.	<u>\$ 72,956</u>	<u>\$ 0</u>
(9)	-	<u>Amortization of Excess Deferred Income Taxes</u> To amortize excess deferred income taxes.	<u>\$ (59,089)</u>	<u>\$ 0</u>
(10)	-	<u>Plant in Service</u> To adjust and include pro forma plant in service as of 2/25/20.	<u>\$ (602,048)</u>	<u>\$ 3,429,709</u>
(11)	-	<u>Accumulated Depreciation</u> To adjust accumulated depreciation as of 2/25/2020.	<u>\$ (511,040)</u>	<u>\$ (16)</u>

Palmetto Utilities, Inc.
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For the Test Year Ended August 31, 2019

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ORS Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(12)	-	<u>Contributions in Aid of Construction (CIAC)</u> To adjust contributions in aid of construction as of 2/25/2020.	\$ <u>(26,970,472)</u>	\$ <u>0</u>
(13)	-	<u>Accumulated Amortization of CIAC</u> To adjust accumulated amortization of CIAC as of 2/25/2020.	\$ <u>15,038,579</u>	\$ <u>0</u>
(14)	-	<u>Accumulated Deferred Income Taxes</u> To adjust accumulated deferred income taxes.	\$ <u>(4,894,748)</u>	\$ <u>(38,603)</u>
(15)	-	<u>Excess Deferred Income Taxes</u> To adjust rate base for excess deferred income taxes.	\$ <u>(1,146,916)</u>	\$ <u>(6,047,489)</u>
(16)	-	<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-5.	\$ <u>(25,710)</u>	\$ <u>475,864</u>
(17)		<u>Interest Expense</u>		
(17A)	(16)	To synchronize interest expense with the portion of rate base financed by debt.	\$ (1,952,712)	\$ (1,682,478)
(17B)	(16)	To remove amortization of debt discount and expense.	(156,168)	(156,168)
(17)		<u>Total Interest Expense</u>	\$ <u>(2,108,880)</u>	\$ <u>(1,838,646)</u>
<u>ORS Adjustments</u>				
(18A)	(17)	<u>Wastewater Sales Revenues</u> To adjust sales revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	\$ <u>986,155</u>	\$ <u>5,933,328</u>
(18B)	-	<u>Other Wastewater Revenues</u> To adjust other wastewater revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	\$ <u>3,845</u>	\$ <u>0</u>
(19)	(18)	<u>Operating Expenses</u> To adjust bad debt expense related to ORS's adjustments to revenues.	\$ <u>17,622</u>	\$ <u>148,333</u>

Palmetto Utilities, Inc.
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ORS Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(20)	(19)	<u>Taxes Other Than Income</u> To adjust utility regulatory assessment fees using a factor of 0.0052728 after ORS's adjustments to revenues.	\$ <u>5,220</u>	\$ <u>29,667</u>
(21)		<u>Income Taxes</u>		
(21A)	(20)	To adjust federal income taxes after ORS's adjustments to revenues. See Exhibit CLS-4.	\$ 192,948	\$ 1,148,188
(21B)	(21)	To adjust state income taxes after ORS's adjustments to revenues. See Exhibit CLS-4.	48,358	287,766
(21)		<u>Total Income Taxes</u>	\$ <u>241,306</u>	\$ <u>1,435,954</u>
(22)	-	<u>Customer Growth Adjustment</u> To adjust for customer growth after ORS's adjustments to revenues. The customer growth factor is 1.385%.	\$ <u>10,053</u>	\$ <u>0</u>

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book PIS 8/31/2019 \$	2 ORS Fully Depreciated \$	3 ORS PIS Additions \$	4 ORS Nonallowables from Prior Rate Cases \$	5 ORS Current Nonallowables \$	6 ORS Capitalized Expenditures \$	7 PRC Valuation \$	8 ORS Pro forma PIS Additions \$	9 ORS Pro forma PIS Retirements \$	10 ORS Depreciable PIS at 2/29/20 \$	11 Service Life	12 Depreciation Expense \$
Plant in Service ("PIS")												
Collection System												
Account 360.2 Collection Sewers - Force												
PVC - 4" to 30"	4,399,370	-	-	(133,726)	-	-	10,830	193,855	-	4,470,328	30	149,011
DIP - 4" to 30"	442,033	-	-	(293,424)	-	-	247,856	-	-	396,464	30	13,215
Air Release Manholes	113,396	-	-	-	-	-	-	12,991	-	126,387	30	4,213
Total Account 360.2	4,954,798	-	-	(427,150)	-	-	258,685	206,846	-	4,993,180		166,439
Account 361.2 Collection Sewers - Gravity												
PVC - 4" to 30"	73,772,406	(105,094)	-	(15,930,333)	-	-	14,165,998	2,031,601	-	73,934,578	45	1,642,991
DIP - 8" to 24"	2,756,234	(389)	-	(830,612)	-	-	567,085	411,868	-	2,904,187	45	64,537
Manholes	20,326,896	(500,453)	-	(8,066,273)	-	-	6,692,236	708,255	-	19,160,661	30	638,689
Total Account 361.2	96,855,536	(605,935)	-	(24,827,218)	-	-	21,425,319	3,151,724	-	95,999,426		2,346,217
Account 363.2 Services to Customers												
Services	5,258,627	(118,372)	-	(2,646,401)	-	1,740	2,202,981	108,918	-	4,807,494	38	126,513
Elder Valves	2,273,326	-	-	-	-	-	-	38,282	-	2,311,607	38	60,832
Grease Traps	21,916	-	-	-	-	-	-	-	-	21,916	38	577
Total Account 363.2	7,553,868	(118,372)	-	(2,646,401)	-	1,740	2,202,981	147,200	-	7,141,017		187,922
Account 364.2, Flow Measuring Devices	43,856	(16,222)	-	-	-	-	-	-	-	27,635	5	5,527
Total Collection Plant	109,408,059	(740,528)	-	(27,900,769)	-	1,740	23,886,986	3,505,770	-	108,161,257		2,706,105
Pumping Plant												
Account 354.3 Structures and Improvements	4,698,384	(251,150)	-	(547,398)	-	-	501,104	24,498	-	4,425,438	32	138,295
Account 371.3 Pumping Equipment	12,681,609	(1,413,752)	-	(1,388,371)	-	-	1,035,397	369,781	(95,520)	11,189,145	18	621,619
Total Pumping Plant	17,379,993	(1,664,902)	-	(1,935,768)	-	-	1,536,501	394,278	(95,520)	15,614,582		759,914
Treatment and Disposal Plant												
Account 353.4 Land and Land Rights	428,725	-	-	-	-	-	-	-	-	428,725	ND	-
Account 354.4 Structures and Improvements	1,565,705	-	-	-	-	18,656	-	914	-	1,585,275	32	49,540
Account 355.4 Power Generating Equipment	681,740	(119,648)	-	-	-	-	-	15,114	-	577,207	20	28,860
Account 371.4 Pumping Equipment	833,912	(336,167)	-	-	-	-	-	-	-	497,745	18	27,652
Account 380.4 Treatment and Disposal Equipment	27,657,193	(1,937,387)	-	(136,668)	-	-	-	842,046	-	26,425,184	18	1,468,066
Account 381.4 Plant Sewers	462,441	-	-	-	-	-	-	-	-	462,441	35	13,213
Account 382.4 Outfall Sewer Lines	20,830,743	(110,385)	-	-	-	4,692	-	-	-	20,725,049	30	690,835
Account 389.4 Other Plant and Miscellaneous Equipment	1,699,922	(540,871)	-	-	-	-	-	-	-	1,159,051	18	64,392
Total Treatment and Disposal Plant	54,160,381	(3,044,458)	-	(136,668)	-	23,348	-	858,075	-	51,860,677		2,342,558

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book PIS 8/31/2019	2 ORS Fully Depreciated	3 ORS PIS Additions	4 ORS Nonallowables from Prior Rate Cases	5 ORS Current Nonallowables	6 ORS Capitalized Expenditures	7 PRC Valuation	8 ORS Pro forma PIS Additions	9 ORS Pro forma PIS Retirements	10 ORS Depreciable PIS at 2/29/20	11 Service Life	12 Depreciation Expense
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$
Plant in Service ("PIS")												
General Plant												
Account 353.7 Land and Land Rights	1,602,827	-	-	(253,509)	-	-	-	-	-	1,349,318	ND	
Account 354.7 Structures and Improvements												
Structures and Improvements	57,372	-	-	(8,270)	-	-	-	729	-	49,831	NA	3,001 *
Leasehold Improvements - Other	138,928	(18,132)	-	(58,516)	-	1,238	-	-	-	63,518	NA	2,502 *
Leasehold Improvements - Paving	3,716	(3,716)	-	-	-	-	-	-	-	-	10	-
Total Account 354.7	200,017	(21,848)	-	(66,786)	-	1,238	-	729	-	113,349		5,503
Account 390.7 Office Furniture and Equipment												
Furniture and Equipment	66,367	(23,581)	-	(3,478)	(7,711)	-	-	-	-	31,597	15	2,106
Computers	640,161	(174,813)	-	(92,388)	(2,048)	-	-	3,888	-	374,800	6	62,467
Total Account 390.7	706,529	(198,395)	-	(95,866)	(9,759)	-	-	3,888	-	406,397		64,573
Account 391.7 Transportation Equipment	598,513	(3,350)	-	(78,471)	-	-	-	101,082	-	617,775	6	102,962
Account 392.7 Stores Equipment	3,171	-	-	-	-	-	-	-	-	3,171	18	176
Account 393.7 Tools, Shop and Garage Equipment	132,501	(42,850)	-	-	-	-	-	-	-	89,651	16	5,603
Account 394.7 Laboratory Equipment	39,213	-	-	-	-	-	-	-	-	39,213	15	2,614
Account 395.7 Power Operated Equipment	382,297	-	102,944	-	-	-	-	1,045	-	486,286	12	40,524
Account 396.7 Communication Equipment	170,021	-	-	(3,882)	-	-	-	3,436	-	169,574	10	16,957
Account 397.7 Miscellaneous Equipment	14,879	-	-	-	-	-	-	-	-	14,879	10	1,488
Account 398.7 Other Tangible Plant	201,244	(307)	-	-	-	-	-	239,007	-	439,944	10	42,406 *
Total General Plant	4,051,212	(266,750)	102,944	(498,514)	(9,759)	1,238	-	349,187	-	3,729,558		282,806
Non-Utility Property												
Structures and Improvements	672,769	-	-	(180,869)	(491,900)	-	-	-	-	-	27	-
Total Nonutility Property	672,769	-	-	(180,869)	(491,900)	-	-	-	-	-		-
Total Plant in Service	185,672,414	(5,716,639)	102,944	(30,652,588) **	(501,659)	26,325	25,423,487	5,107,309	(95,520)	179,366,075		6,091,383

Less: Per Book	6,212,685
ORS Adjustment 3A	(121,302)
ORS Plant in Service as of 2/29/20	185,070,363
Less: Per Book	185,672,411
ORS Adjustment 10	(602,048)
Accumulated Depreciation as of 2/29/20	(56,755,311)
Less: Per Book	(56,244,271)
ORS Adjustment 11	(511,040)

Palmetto Utilities Inc.
Docket No. 2019-281-S
Computation of Depreciation and Amortization Expense
For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book CIAC 8/31/2019	2 ORS Fully Amortized	3 ORS CIAC Additions	4 ORS Nonallowables from Prior Rate Cases	5 PRC Valuation	6 ORS Pro forma CIAC Additions	7 ORS Pro forma CIAC Retirements	8 ORS Amortizable CIAC at 2/29/20	9 Service Life	10 Amortization Expense
	\$	\$	\$	\$	\$	\$	\$	\$		\$
Contributions in Aid of Construction ("CIAC")										
Collection System										
Account 360.2 Collection Sewers - Force										
PVC - 4" to 30"	(2,959,589)	-	-	-	(10,830)	(1,625)	-	(2,972,044)	30	(99,068)
DIP - 4" to 30"	(131,213)	-	-	-	(247,856)	-	-	(379,069)	30	(12,636)
Air Release Manholes	(19,789)	-	-	-	-	(1,100)	-	(20,889)	30	(696)
Total Account 360.2	(3,110,592)	-	-	-	(258,685)	(2,725)	-	(3,372,002)		(112,400)
Account 361.2 Collection Sewers - Gravity										
PVC - 4" to 30"	(21,101,630)	105,094	(1,670,550)	-	(14,165,998)	(150,895)	-	(36,983,979)	45	(821,866)
DIP - 8" to 24"	(1,914,214)	389	-	-	(567,085)	(211,875)	-	(2,692,785)	45	(59,840)
Manholes	(10,818,728)	500,453	-	-	(6,692,236)	(205,877)	-	(17,216,388)	30	(573,880)
Total Account 361.2	(33,834,572)	605,935	(1,670,550)	-	(21,425,319)	(568,646)	-	(56,893,152)		(1,455,586)
Account 363.2 Services to Customers										
Services	(2,407,079)	118,372	-	-	(2,202,981)	(52,892)	-	(4,544,580)	38	(119,594)
Elder Valves	(1,902,376)	-	-	-	-	(32,584)	-	(1,934,961)	38	(50,920)
Grease Traps	(16,979)	-	-	-	-	-	-	(16,979)	38	(447)
Total Account 363.2	(4,326,434)	118,372	-	-	(2,202,981)	(85,476)	-	(6,496,520)		(170,961)
Account 364.2, Flow Measuring Devices	(27,635)	-	-	-	-	-	-	(27,635)	5	(5,527)
Total Collection CIAC	(41,299,232)	724,307	(1,670,550)	-	(23,886,986)	(656,847)	-	(66,789,308)		(1,744,474)
Pumping CIAC										
Account 354.3 Structures and Improvements	(2,954,036)	4,992	-	-	-	-	-	(2,949,044)	32	(92,158)
Account 371.3 Pumping Equipment	(4,958,205)	1,024,098	-	-	-	(43,516)	61,528	(3,916,095)	18	(217,561)
Total Pumping CIAC	(7,912,241)	1,029,090	-	-	-	(43,516)	61,528	(6,865,140)		(309,719)
Treatment and Disposal CIAC										
Account 353.4 Land and Land Rights	(222,033)	-	-	-	-	-	-	(222,033)	ND	-
Account 354.4 Structures and Improvements	(817,212)	-	-	-	-	(130)	-	(817,342)	32	(25,542)
Account 355.4 Power Generating Equipment	(218,457)	60,182	-	-	-	(2,749)	-	(161,024)	20	(8,051)
Account 371.4 Pumping Equipment	(482,046)	135,150	-	-	-	-	-	(346,897)	18	(19,272)
Account 380.4 Treatment and Disposal Equipment	(6,097,607)	910,951	(816,745)	-	-	(33,634)	-	(6,037,036)	18	(335,391)
Account 381.4 Plant Sewers	(333,087)	-	-	-	-	-	-	(333,087)	35	(9,517)
Account 382.4 Outfall Sewer Lines	(275,382)	23,161	-	-	-	-	-	(252,221)	30	(8,407)
Account 389.4 Other Plant and Miscellaneous Equipment	(862,441)	164,194	-	-	-	-	-	(698,247)	18	(38,792)
Total Treatment and Disposal CIAC	(9,308,266)	1,293,638	(816,745)	-	-	(36,513)	-	(8,867,886)		(444,972)

Palmetto Utilities Inc.
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For the Test Year Ending August 31, 2019

Account	1 PUI Adjusted Per Book CIAC 8/31/2019	2 ORS Fully Amortized	3 ORS CIAC Additions	4 ORS Nonallowables from Prior Rate Cases	5 PRC Valuation	6 ORS Pro forma CIAC Additions	7 ORS Pro forma CIAC Retirements	8 ORS Amortizable CIAC at 2/29/20	9 Service Life	10 Amortization Expense
	\$	\$	\$	\$	\$	\$	\$	\$		\$
Contributions in Aid of Construction ("CIAC")										
General CIAC										
Account 353.7 Land and Land Rights	(105,731)	-	-	105,731	-	-	-	-	ND	-
Account 354.7 Structures and Improvements										
Structures and Improvements	-	-	-	-	-	(168)	-	(168)	NA	(8) *
Leasehold Improvements - Other	-	-	-	-	-	-	-	-	NA	- *
Leasehold Improvements - Paving	-	-	-	-	-	-	-	-	10	-
Total Account 354.7	-	-	-	-	-	(168)	-	(168)		(8)
Account 390.7 Office Furniture and Equipment										
Furniture and Equipment	-	-	-	-	-	-	-	-	15	-
Computers	-	-	-	-	-	-	-	-	6	-
Total Account 390.7	-	-	-	-	-	-	-	-		-
Account 391.7 Transportation Equipment	-	-	-	-	-	-	-	-	6	-
Account 392.7 Stores Equipment	-	-	-	-	-	-	-	-	18	-
Account 393.7 Tools, Shop and Garage Equipment	(340)	-	-	-	-	-	-	(340)	16	(21)
Account 394.7 Laboratory Equipment	-	-	-	-	-	-	-	-	15	-
Account 395.7 Power Operated Equipment	-	-	-	-	-	-	-	-	12	-
Account 396.7 Communication Equipment	(3,293)	-	-	-	-	-	-	(3,293)	10	(329)
Account 397.7 Miscellaneous Equipment	-	-	-	-	-	-	-	-	10	-
Account 398.7 Other Tangible Plant	-	-	-	-	-	-	-	-	10	-
Total General CIAC	(109,363)	-	-	105,731	-	(168)	-	(3,800)		(358)
Non-Utility Property										
Structures and Improvements	-	-	-	-	-	-	-	-	27	-
Total Nonutility Property	-	-	-	-	-	-	-	-		-
Total CIAC	(58,629,102)	3,047,035	(2,487,295)	105,731	(23,886,986)	(737,044)	61,528	(82,526,134)		(2,499,523)

ND - Not Depreciated

NA - Not Available

* - Calculated manually because assets in this class have different useful lives.

** - Total does not agree from nonallowables in prior rate case because some assets are now fully depreciated or were removed by the company in the last case. See Adjustment 3A for more details.

Less: Per Book (1,858,499)
ORS Adjustment 3B (641,024)

CIAC as of 2/29/20 (85,573,169)

Less: Per Book (58,602,697)

ORS Adjustment 12 (26,970,472)

Accumulated Amortization of CIAC as of 2/29/20 39,351,538

Less: Per Book 24,312,959

ORS Adjustment 13 15,038,579

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Computation of Income Taxes
For the Test Year Ended August 31, 2019

Exhibit CLS-4

After Accounting & Pro Forma Adjustments

Operating Revenues	\$ 22,568,873
Operating Expenses	16,225,199
Net Operating Income Before Taxes	\$ 6,343,674
Less: Annualized Interest Expense	2,060,441
Taxable Income - State	\$ 4,283,233
State Income Tax %	5.0%
State Income Taxes	\$ 214,162
Less: State Income Taxes Per Book	(29,693)
Adjustment to State Income Taxes #6B	\$ 243,855
Taxable Income - Federal	\$ 4,069,071
Federal Income Taxes %	21.0%
Federal Income Taxes	\$ 854,505
Less: Federal Income Taxes Per Book	(268,300)
Adjustment to Federal Income Taxes #6A	\$ 1,122,805

After ORS's Adjustments

Operating Revenues	\$ 23,558,873
Operating Expenses	16,248,041
Net Operating Income Before Taxes	\$ 7,310,832
Less: Annualized Interest Expense	2,060,441
Taxable Income - State	\$ 5,250,391
State Income Tax %	5.0%
State Income Taxes	\$ 262,520
Less: State Income Taxes As Adjusted	214,162
Adjustment to State Income Taxes #21B	\$ 48,358
Taxable Income - Federal	\$ 4,987,871
Federal Income Taxes %	21.0%
Federal Income Taxes	\$ 1,047,453
Less: Federal Income Taxes As Adjusted	854,505
Adjustment to Federal Income Taxes #21A	\$ 192,948

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Cash Working Capital Allowance
For the Test Year Ended August 31, 2019

Exhibit CLS-5

After ORS's Adjustments

Operating Expenses	\$ 8,337,195
Rate Case Expenses	<u>691,439</u>
Total Expenses for Computation	\$ 9,028,634
Allowable Rate	<u>12.50%</u>
Computed Cash Working Capital	\$ 1,128,579
Less: Cash Working Capital - Application Per Books	<u>1,154,289</u>
ORS Adjustment #16 - Cash Working Capital	<u><u>\$ (25,710)</u></u>

Palmetto Utilities, Inc.
Docket No. 2019-281-S
Return on Equity
For the Test Year Ended August 31, 2019

Exhibit CLS-6

Description	Capital Structure	Ratio	Application Per Books				After Accounting and Pro forma Adjustments				After ORS's Adjustments's			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 75,588,975	45.00%	\$ 43,582,572	5.89%	2.65%	\$ 2,567,013	\$ 34,982,012	5.89%	2.65%	\$ 2,060,441	\$ 34,982,012	5.89%	2.65%	\$ 2,060,441
Members' Equity	92,386,526	55.00%	53,267,588	16.74%	9.21%	8,918,298	42,755,793	7.83%	4.30%	3,346,610	42,755,793	9.55%	5.25%	4,082,515
Totals	\$ 167,975,501	100.00%	\$ 96,850,160		11.86%	\$ 11,485,311	\$ 77,737,805		6.95%	\$ 5,407,051	\$ 77,737,805		7.90%	\$ 6,142,956

Palmetto Utilities, Inc.

Exhibit CLS-7

Docket No. 2019-281-S

**Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended August 31, 2019**

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Company's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Wastewater Sales Revenues	20,156,156	1,317,532 (1A)	21,473,688	5,984,611 (18A)	27,458,299
Other Wastewater Revenues	1,157,066	(61,881) (1B)	1,095,185	77,758 (18B)	1,172,943
<u>Total Utility Operating Revenues</u>	<u>21,313,222</u>	<u>1,255,651</u>	<u>22,568,873</u>	<u>6,062,369</u>	<u>28,631,242</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	5,632,277	2,704,918 (2)	8,337,195	107,910 (19)	8,445,105
Depreciation and Amortization	4,354,186	(762,326) (3)	3,591,860	0	3,591,860
Rate Case Expenses	686,665	4,774 (4)	691,439	0	691,439
Taxes Other Than Income Taxes	3,602,038	10,071 (5)	3,612,109	31,966 (20)	3,644,075
Income Taxes	(4,311,776)	5,380,444 (6)	1,068,668	1,477,661 (21)	2,546,329
<u>Total Utility Operating Expenses</u>	<u>9,963,390</u>	<u>7,337,881</u>	<u>17,301,271</u>	<u>1,617,537</u>	<u>18,918,808</u>
<u>Total Net Utility Operating Income (Loss)</u>	<u>11,349,832</u>	<u>(6,082,230)</u>	<u>5,267,602</u>	<u>4,444,832</u>	<u>9,712,434</u>
Other Income and Deductions	135,479	(128,075) (7)	7,404	0	7,404
Add: Customer Growth	0	72,956 (8)	72,956	61,561 (22)	134,517
Less: Amortization of EDIT	0	(59,089) (9)	(59,089)	0	(59,089)
<u>Net Income for Return</u>	<u>11,485,311</u>	<u>(6,078,260)</u>	<u>5,407,051</u>	<u>4,506,393</u>	<u>9,913,444</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	185,672,411	(602,048) (10)	185,070,363	0	185,070,363
Accumulated Depreciation	(56,244,271)	(511,040) (11)	(56,755,311)	0	(56,755,311)
Contributions in Aid of Construction (CIAC)	(58,602,697)	(26,970,472) (12)	(85,573,169)	0	(85,573,169)
Accumulated Amortization of CIAC	24,312,959	15,038,579 (13)	39,351,538	0	39,351,538
Net Plant	95,138,402	(13,044,981)	82,093,421	0	82,093,421
Accumulated Deferred Income Taxes	(81,654)	(4,894,748) (14)	(4,976,402)	0	(4,976,402)
Excess Deferred Income Taxes (EDIT)	0	(1,146,916) (15)	(1,146,916)	0	(1,146,916)
Materials and Supplies	477,552	0	477,552	0	477,552
Prepayments	161,571	0	161,571	0	161,571
Cash Working Capital	1,154,289	(25,710) (16)	1,128,579	0	1,128,579
<u>Total Rate Base</u>	<u>96,850,160</u>	<u>(19,112,355)</u>	<u>77,737,805</u>	<u>0</u>	<u>77,737,805</u>
<u>Return on Rate Base</u>	<u>11.86%</u>		<u>6.96%</u>		<u>12.75%</u>
<u>Operating Margin</u>	<u>34.33%</u>		<u>14.83%</u>		<u>27.43%</u>
<u>Interest Expense</u>	<u>4,169,321</u>	<u>(2,108,880) (17)</u>	<u>2,060,441</u>	<u>0</u>	<u>2,060,441</u>